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SUBJECT: PRC/TAIWAN JOINT VENTURE TO EXPLORE OIL IN TAIWAN STRAITS

1. SUMMARY. The PRC and Taiwan are both actively seeking new energy sources and compete for oil concessions in the same countries. However, the PRC and Taiwan are cooperating to explore for petroleum in the Taiwan Strait. This is part of an effort to triple energy exploration spending by Taiwan by 2010 and is the first instance of cross-Strait joint exploration for energy resources and may be a portent of things to come. END SUMMARY

TAIWAN TRIPLING ITS OIL AND GAS EXPLORATION BUDGET  
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2. Taiwan, which imports more than 98 percent of its energy needs, hopes to double its oil and gas reserves in five years to provide a cushion against rising costs of oil. Part of the plan is to more than triple annual exploration spending to NT\$10 billion (about US \$300 million) by 2010 from the current NT\$3 billion. The doubling of oil prices over the past five years has triggered the unprecedented quest for oil and gas. According to CPC's Director of Overseas Operations John Hsu, the investments are mostly joint-ventures to lessen the risk. Currently, Taiwan has oil fields in the following countries (figures indicate Taiwan ownership percentage) : Venezuela 17.5 %, Ecuador 61 %, Indonesia 16.7 %, Australia 25 %, and the U.S. 22.5 %. Because investments in volatile regions such as Southeast Asia and Latin America run the risk of expropriation and civil unrest, Taiwan is focusing on stable areas such as the Gulf of Mexico and Australia for exploration, and it has not neglected its own backyard--the Taiwan Strait.

JOINT VENTURE WITH THE PRC IN TAIWAN STRAITS  
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3. In 2002, Taiwan's CPC and PRC's China National Offshore Oil Corp (CNOOC) signed a joint venture contract to establish the "Tainan-Chowshan Petroleum Operation Company" to explore for oil in the Taiwan Strait. CPC through its overseas wholly-owned subsidiary, Overseas Petroleum Investment Corporation (OPIC) signed the contract with CNOOC. The joint-venture company is registered in the British Virgin Islands. The joint venture is a 50-50 profit sharing arrangement by both parties. The PRC provides logistical support at the port of Shenzhen where CPC has set up an office, whereas Taiwan provides technical experts. According to CPC's Hsu, PRC drilling companies won the bidding since they have the advantage of low cost and proximity to the exploration tract. The tract lies SW of Taiwan at the territorial sea border between Taiwan and the PRC (21-23 degrees North Longitude;

116.5-118.5 Latitude). The first well drilled on the PRC side in November 2003 was dry, but geological data obtained was useful for subsequent drilling. The second well will begin drilling on the Taiwan side at the end of 2007. The exploration area has estimated natural gas reserves of 6 billion cubic meters.

#### FEAR FOR NATIONAL SECURITY

¶4. (SBU) Taiwan authorities initially withheld approval of this project for fear that national security might be compromised. The Mainland Affairs Council (MAC) supported the move although it took nearly to approve the drilling for the second well (DP21-1-1). While cooperation has been good so far on this joint venture, CPC's Hsu told AIT that when CPC tried to get into Angola to discuss oil exploration, visas for its technical personnel were denied under PRC pressure.  
YOUNG